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I am convinced we have the **people**, the resources, the vision and the strategy to take hold of all new tasks, to create value for our employees and more generally for our 1.5 million connected customers.

### Stéphane Grit

Chairman of the Board of Directors

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### Statement by the Chairman of the Board of Directors

#### Ladies and Gentlemen,

Having completed the first full business year of our young company, I would like to sincerely compliment our employees, the managers of SPP - distribúcia and our partners involved in the accomplishments of 2007.

In 2007 SPP - distribúcia duly fulfilled tasks, which arose from the legal unbundling of its activities from the mother company, SPP a. s. This process commenced on 1<sup>st</sup> of July 2006 and comprised of these main elements:

- establishing all contractual relations pursuant to the new legislative framework
- developing tools for managing the relations with our customers whether they are shippers, suppliers of gas or end-customers, connected to our network, namely the new Distribution Information System (DIS)
- re-engineering of our processes with the aim to increase our speed and simplify cooperation with our customers.

When the opening of the Slovak market advances, I am confident that we will be sufficiently prepared to meet the increasing demand.

Moreover, year 2007 was a year full of changes, mainly of a legislative nature. Whether it meant preparation of the Slovak Energy Security Policy, draft amendment to the Energy and Regulation Laws, draft Decree about quality standards in the gas industry, change in accounting of natural gas consumption from volume units in m<sup>3</sup> to energy units in kWh: SPP - distribucia was actively present in commenting the process of this energy package by experts.

SPP – distribúcia, during the whole year, focused its activities on maintaining the vision of ensuring the efficient operation of its network, delivery of the agreed quality of services, contributing to its sustainability and meeting its statutory obligations and last but not least on finding the necessary tools for financing its own activities.

In this respect, we are satisfied that our price proposals for 2008 for distribution tariffs were globally accepted by the ÚRSO. Thanks to the tough but trustworthy cooperation, we managed to keep the constant level of allowed revenues. In 2008, we will continue to focus on the matters mentioned, with special respect to the preparation of a multi-year regulatory period, as announced by the Chairman of the ÚRSO.

As far as our operations are concerned, we were able to compensate the financial results of the mild weather of the first semester of 2007 as this caused lower volumes of distributed gas. We achieved this result mainly by limiting our overhead and energy costs, as the fruit of programs launched in 2006 in the SPP core group companies.

On the downside I am aware of the fact that the development of the demand for our services recorded a slight decrease as a result of the lower consumption of natural gas due mainly to energy saving measures and awareness from the side of customers. On the upside, the strong development of electricity production and industrial parks offers opportunities for SPP - distribúcia, which adopted an active approach towards these new promising connected customers and users of the network.

Aside from these macro variables, one external factor that could affect our results in the future is related with the price increase of natural gas we are purchasing for our own consumption and covering our gas losses, a well-known fact in the utility business. To deal with this issue, we have taken multiple steps, including the review of our measurement systems and practices, replacement of the most sensitive gas equipment to diminish the reasons for these losses.

On top of the measures to maintain our level of revenue, we also implemented several initiatives to lower our costs and improve our operating efficiency. Accordingly we are developing the mobile working places project for saving unproductive hours as well as fuel. This technology represents a real breakthrough in our industry, but will become a standard in the utility business in the future.

Moreover, I would like to stress that SPP - distribúcia fulfilled its essential obligation to provide for the safe operation of the network. In year 2007 continued the preparation for the optimization of future significant renewal of gas facilities, which were built during the 70's – 90's and whose replacement will take place in the future years.

Finally, I would like to remind you that we remain committed to top corporate governance practices, having, in 2007, developed our internal control system in this regard.

Our business model remains strong: recurring cash-flows, low level of debt, prudent investment, strict cost and expenditures control, we can face the future challenges of our company with confidence. Although we still face uncertainty - particularly in light of our regulation framework and cost pressures, I am convinced we have the people, the resources, the vision and the strategy to take hold of all new tasks, to create value for our employees and more generally for our 1.5 million connected customers.

My Board colleagues Peter Hlaváč, Sebastian Jochem and I are proud to share this annual review with you, ensuring that we will continue to roll up our sleeves and work relentlessly to build our company, trying to deserve the appreciation that SPP - distribúcia is a company you can trust and rely on.

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**Stéphane Grit** Chairman of the Board of Directors

### Board of Directors as at 31<sup>st</sup> December 2007



Ing. Stéphane Grit Chairman of the Board of Directors



**Ing. Peter Hlaváč** Vice-Chairman of the Board of Directors



Assessor jur. Sebastian Jochem Member of the Board of Directors

### Supervisory Board as at 31<sup>st</sup> December 2007



**Doc. Ing. Nikolaj Ponevský, PhD.** Chairman of the Supervisory Board

**Members:** 

Ing. Gustáv Laca Vladislav Petráš Pavol Korienek Daniel Nechala

Antoine Jourdain Vice-Chairman of the Supervisory Board

### Statement by the General Director

#### Ladies and Gentlemen,

2007 was the first year of the independent existence of SPP – distribucia a. s. What did it bring to shareholders, employees as well as to our customers? Was the step of legal unbundling of integrated SPP a. s. into three independent companies from the point of view of distribution capacity for customers as a right one?

Year 2007 was from economic point of view successful which is also proven by the results from the main economic indicators of our company. We are proud that despite very complicated conditions from the point of view of permitted revenues the economic results of our company are close to planned. We fulfilled tasks in the area of the investment plan, where by fulfilling conditions for reconstructions we started the process of the gradual replacement of gas facilities and we gave further space for the lowering of costs and increasing safety.

Also in 2007 the main priority for SPP - distribúcia a. s. was to secure reliable natural gas supplies for our customers. Reliable, continuous and safe natural gas distribution requires continuous management, control, maintenance, diagnosing and investments in the reconstruction of the distribution network with a total length of more than 31 000 km. SPP - distribúcia a. s. therefore continuously improves its diagnosing processes, modernises Technologies and increases investments into safety and the development of the distribution network on a long-term basis. The safety of the gas distribution network in Slovakia can be compared to the high standard of safety of gas networks in the developed countries of European Union.

From the point of view of activities inside the company 2007 was extraordinarily instructive. Events once again proved that also in times of modern technologies and management systems the slogan that "gas is a good servant but not a good lord" is true. I would therefore like to stress that natural gas such as each other energy medium, when handled properly and in safe manner, is a safe medium.

2007 was also significant from the point of the functioning of the new company towards our customers. Although many customers perceive the pricing policy of SPP mainly in connection to the prices of gas, the prices for distribution capacity sale have actually remained unchanged. This positive fact during the continuous growth of prices from the side of inputs was reached through the increased efforts of our employees to maximize the productivity of related activities.



We are aware that we are not perfect and therefore we want to continuously work on our professional approach and to improve communication with our customers. I am convinced that in the upcoming year we can await further improvement in this area.

I would like to thank to our employees, partners and customers and thanks to them we managed to reach the planned economic results.

Kazimír Kmeť

General Director

### Top Executive Management as at 31<sup>st</sup> December 2007



**Ing. Kazimír Kmeť, CSc.** General Director



**Ing. Rastislav Lauko** Economic Service and Regulation Section Director



**Ing. Dušan Terem** Policy Section Director



**Ing. Marek Paál** Distribution Capacities Sale Section Director



**Ing. Miloš Hrabě** Measuring and Metrology Section Director



Ing. Milan Mindek Slovak Gas Dispatching Director



**Ing. Ladislav Ondrejička** Development of Networks Section Director



**Ing. Miroslav Horváth** Operation and Maintenance Regional Centre – East Director



**Ing. Gabriel Pintér** Operation and Maintenance Regional Centre – West Director



**Ing. Marián Sanitra** Operation and Maintenance Regional Centre – North Director



**Ing. Vladimír Mataj** Operation and Maintenance Regional Centre – South Director

### **Company Profile**

It was not so long ago that natural gas distribution was realised within SPP a. s. as an independent division. With regard to the new requirements of the European Union and Slovak legislation this activity is from 1<sup>st</sup> July 2006 realised by an independent subsidiary company SPP - distribúcia a. s. 2007 was the first complete economic year from the aspect of operation and management.

SPP - distribucia a. s. is responsible for the reliable distribution of natural gas for approximately 1.5 million customers in Slovakia. The company secures the operation of the distribution network, as well as the regular maintenance and repair of pipelines of all pressure levels, regulatory stations and odorization stations.

One of the main areas of activity is connecting new customers to the natural gas distribution system and develop the network accordingly in order to enable in time the provision of the requested volume of natural gas at the needed pressure level to new private and business customers.

Being responsible for the distribution network SPP – distribucia a. s. also has the technically and economically quite demanding task to invest at the right time and in the right amount into the reconstruction of the network and other gas equipment in order to keep the high level of reliability and security.

Last but not least SPP - distribúcia a. s. provides the dispatching control of the distribution network and performs the measurement of the flow of natural gas at its entry and exit points. As a consequence SPP – distribúcia a. s. is responsible for compensating on a daily basis differences between natural gas volumes entering and leaving the network. SPP – distribúcia a. s. performs this balancing service by withdrawing natural gas or injecting it into an underground storage.

SPP - distribúcia a. s. strives to make its processes within SPP Group more efficient and to improve services provided to its customers. This mainly concerns the process of connection to the distribution network and meter readings of natural gas meters.

The previous year showed that the independent entity SPP - distribúcia a. s. fulfilled its main tasks and market requirements.

### Organisational Chart as at 31<sup>st</sup> December 2007





## Economic and Financial Performance



### Economic and Financial Performance

2007 was the first integrated year of the operation of the newly constructed environment of for SPP - distribúcia a. s. in Slovakia after its legal unbundling in 2006.

Comparison of financial results of our company with the previous period naturally reflects the legal unbundling in 2006. Tables show year-to-year the comparison of economic (financial) results reached by the company in 2007 with the results from the six months period of 2006. Financial results of 2006 are at the same time influenced by specific accounting operations, which were extraordinary and applied with relation to the legal unbundling for 2006 only.

#### The Development of the Business Environment

The development of the currency rate, price of oil and oil products on world markets had an impact on the business environment also in 2007.

The factor that affected the **FX market** was the establishment of the previous year's trend of the strengthening of Slovak Crown. The Slovak Crown recorded even further strengthening during the course of 2007.

Development on **commodity market**, which represents the market factors of oil and oil **products**, brought during 2007 changes in the growth of prices. The price of oil broke through its historic maximum value.

**Climatic conditions**, influencing natural gas trade and distribution, also had an unintended impact on the financial results of the company. The influence of warmer weather in the first third of 2007 was significantly displayed in the lower sales of natural gas and consequently also in the lower amount of distributed volumes.

#### **Individual Results**

For 2007 the company achieved **operating revenues** of SKK 13.8 billion. The main source of operating revenues were revenues coming from the provision of distribution capacity.

**Operating expenses** (not including income tax) was incurred in the amount of SKK 9.7 billion. The major components of these expenses were the purchase of services, depreciation and amortisation, personal expenses and expenses for the purchase of natural gas for covering own consumption as well as losses from distribution network.

SPP – distribúcia a. s. achieved for the 2007 financial year a **profit before tax** in the amount of SKK 4.1 billion. The total income tax obligation amounted to SKK 0.8 billion, of which payable tax amounted to SKK 0.9 billion and deferred tax (current period) amounted to SKK -0.1 billion. **Profit after tax** reached the amount of SKK 3.3 billion.

#### Comparison of the structure of profit after tax (in SKK billion):

	January 1 <sup>st</sup> - December 31 <sup>st</sup> 2007	July 1 <sup>st</sup> - December 31 <sup>st</sup> 2006
Operating revenues	13.8	6.0
Operating expenses	-9.7	-3.4
Profit from financial activities before tax	0.0	0.0
Income tax	-0.8	-0.2
Profit after tax	3.3	2.4

# Capital structure



### Capital structure

**Total assets** of the company, as at the date of the balance sheet, amounted to SKK 87.6 billion and dropped against the previous period by SKK 1.4 billion, mainly in relation to current assets.

**Non-current assets (long-term intangible and tangible assets)** were reported in the amount of SKK 82.8 billion and represented 94.5 % of total assets. The main non-current assets (long-term assets) were buildings, plants, machinery and distribution network facilities. The share of non-current (long-term assets) assets, as at date of 2007 balance sheet, was at the similar level as in 2006.

**Capital expenditures** reached the amount of SKK 2.2 billion and were spent mainly for the reconstruction and development of the distribution networks, for the purchase of technology and equipment.

**Current assets (short-term assets)** in the amount of SKK 4.8 billion as at the date of the balance sheet were formed by stocks, receivables, from financial account comprising of 5.5 % share of the total assets. Drop against the previous period was by SKK 1.3 billion, mainly in relation to financial accounts.

#### Comparison of the structure of assets (in SKK billion):



**Shareholders' equity** amounted to SKK 74.1 billion, representing 84.6 % of the liabilities value of the company. In addition to the registered capital it includes also mandatory reserves funds and other funds, reserves from revaluation and retained earnings. Shareholders' equity year on year increased by SKK 0.9 billion.

**Registered capital** of the company, representing the share capital registered in the corporate registry, reached the amount of SKK 59.0 billion. This comprised of 11 common shares (10 shares at a nominal value of SKK 100 000 and 1 share at a nominal value of SKK 58 968 162 500).

#### Structure of shareholders as at December 31st 2007 was as follows:

Slovenský plynárenský priemysel, a. s.	11 shares	100 %
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The **mandatory reserve fund** of the company, comprised of the capital contribution was as at 31<sup>st</sup> December 2007 SKK 11.8 billion.

Total **liabilities** amounted to 15.4 % of covering of assets, at the date of the balance sheet the liabilities reached the amount of SKK 13.5 billion. Compared to the initial state (balance carried forward) dropped by SKK 2.3 billion. Liabilities comprised mainly of long-term debts (deferred tax obligation amounting to SKK 11.2 billion) and short-term liabilities and reserves.

#### Comparison of the structure of resources (in SKK billion):





### Natural Gas Distribution



### Natural Gas Distribution

SPP – distribucia a. s. ensures natural gas distribution for customers on the territory of the Slovak Republic. We distribute natural gas in Slovakia via a network of gas pipelines of varying pressure levels, an integral part of which are technical equipment buildings, primarily release and regulation stations.



Length of the distribution network in 2003 - 2007 (in km)

The total length of our distribution gas pipelines as at 31<sup>st</sup> December 2007 was 31 537 km. High-pressure gas pipelines form 6 343 km of this figure, while 25 194 km comprise of local networks, i.e. medium and low-pressure gas pipelines. Gas pipelines and connections made from polyethylene form a 50 % share in the total distribution network.

The number of municipalities on gas in Slovakia as at 31<sup>st</sup> December 2007 was 2 227, representing 77 % of the 2 891 municipalities in Slovakia and covering 94 % of the people living in Slovakia.

The Slovak Gas Dispatch Centre controls our dispatching network by means of the main dispatching workplace in Bratislava and four monitoring centres. Dispatching control is supported by the control and monitoring system, allowing us to directly control and monitor the operation of the most important gas structures. An integral part of the dispatching control is network balancing, which we, as the distribution network operator, must carry out. This means attaining a constant balance between the quantity of gas entering the distribution network and the gas quantity being taken off from the distribution network. The dispatching control and monitoring system has a crucial role in solving extraordinary and unforeseen situations that may arise in the distribution network's operation. Our activity thus plays an essential and key role in the safe and smooth running of natural gas distribution for gas customers in Slovakia.

#### Local network pipe lengths (in km)



#### Safety of the Slovak distribution network

Our continuing priority is to ensure the safe and reliable supply of natural gas in Slovakia. All our efforts, ranging from maintenance through to diagnostics, are directed towards this end. For this purpose in 2007 we thoroughly revised and significantly improved our internal regulations for the operation and maintenance of our gas facilities which comprise the working procedures in all preventive and corrective activities.

Using the Technical State Evaluation (TSE) methodology, we can determine as objectively as possible the reliability and safety of gas facilities, enabling us to assign gas facilities for reconstruction or increased inspection. Our SAP module is used for the planned control and evaluation activities in operation and maintenance, making a substantial contribution to the efficiency of the maintenance activities performed.

By updating the operating regulation, by implementing the Technical State Evaluation methodology for gas facilities and making full use of the SAP PM module, and through optimisation, we introduced systematic monitoring of the technical state of our networks and achieved increased safety throughout the distribution network.

#### Investments in network renewal in 2002 - 2007 (in SKK billion)



### Slovak Distribution Network





## Human Resources



### Human Resources

People are a very important asset of our company and therefore the individual areas of human resources management in 2007 had one common objective – to increase employee satisfaction at all levels. This was also the direction of social policy, manner of development and employees' education as well as remuneration and motivation. Key to us is the consistent projection of corporate values in everyday life.

#### **Employment relations**

In 2007, in the area of employment relations, we continued in fulfilling the social program focused on supporting the health and working strength of our employees. As a benefit in the improvement of the working conditions of our employees we consider also the implementation of flexible working hours from March 2007. We tried to secure better comfort for employees also through implementing an electronic work attendance system or through improving the application for the realisation of interviews. A new approach in monitoring the working environment and the organisation of medical check-ups was brought in through the use of an occupational medical service, the aim of which is to add to the elimination of health risks and to optimize the health care system. In 2007 we also worked on the new collective agreement for SPP Core Group companies. Our main objective during this preparation was to bring a new modern social program to employees.

#### Education

In the area of mandatory education we, in 2007, reacted primarily to legislative requirements. In connection to changes in legislation we provided a great number of mandatory upgraded re-training of employees for the repair and operation of selected technical gas, pressure, electric and lifting facilities.

We completed the "integrated development of managers program" (chief managers, foremen), which focused on the development of managerial skills and competencies in line with the company's needs. Development of managers is still being continued based on the specific needs of individuals.

Also in 2007 we continued in the management and development of talents project for identified employees with high potential, whom we prepare for management positions in the future. This program not only represents development and educational activities, but it also involves regular meetings and discussions with the management of the SPP Core Group companies. Development programs of talent are focused on the development of managerial skills, professional knowledge and language skills. The Evaluation Centre provides the space and opportunity to monitor the obtained skills, upon which individual feedback is provided.

#### Internal communication

In our company we use different forms and tools of mainly interactive communication in order to ensure that the process of mutual communication is as effective as possible and also to provide feedback. We support qualitative and effective internal communication.

Also in 2007 the company bulletin "Human resources inform", Intranet and "Blue Flame" magazine served as regular communication tools to all of our employees. We paid special attention to direct communication with employees. For this we used personal meetings, workshops and various forms of gatherings. Information meetings – regular sessions of top management with the directorate and Board of Directors of SPP Core Group companies have become an effective form of exchange of information.

### Development of qualification structure employees as at 31<sup>st</sup> December 2007



University (276 / 16.2 %)
Completed secondary (681 / 40.0 %)
Secondary (730 / 42.9 %)
Basic (15 / 0.9 %)

### Age structure of employees as at 31<sup>st</sup> December 2007



up to 30 years (83 / 4.9 %)
31 - 40 years (568 / 33.4 %)
41 - 50 years (593 / 34.8 %)
over 50 years (458 / 26.9 %)

Average age of employees as at 31st December 2007 was 44 years.

#### Share of women

As at 31<sup>st</sup> December 2007 the company had 1 702 employees, out of this 121 women, which represented 7 % of the total number of employees.



# Safety and Environmental Protection



### Safety and Environmental Protection

SPP - distribucia a. s. is a modern natural gas distribution company that sees safety, health and environmental protection as one of the pillars of its operation. In protecting the natural environment we seek a balance between the needs of natural resources and the care to preserve them.

All tasks we solve have a great impact on the quality and stability of the natural environment. We therefore strive to minimize our impact on the natural environment, which could threaten or endanger conditions and forms of life, natural heritage, the country's beauty or lower its ecological stability.

#### Waste

SPP - distribucia a. s. handles a large variety of types of waste that are generated through routine operations, repairs, maintenance and cleaning in our technological facilities. We consider waste as everything that cannot be used from the original source in the production process or for any other human activity. Such waste comprise of condensate from gas distribution, but also paper waste from administrative activities. In relation to higher figure of "other waste", this is waste, which is in majority composed of construction scree, waste soil and stone which are left as a result of maintenance and reconstruction of distribution pipelines. This aim is being achieved through concrete activities and projects in the field of waste management. If possible, we prevent the generation of waste, limit its existence and always prefer waste utilization before disposal.

#### Water protection

We are one of the major consumers of ground water and producers of waste water. Therefore one of the biggest priorities in the field of environmental protection is water management. Water is the most important and the most widely used liquid in nature. Life is born in water. No animals or plants can survive without water. Simply there is life where there is water. For this reason our company does not see water only as a source, but as form of energy. It is a scarce energy and needs to be conserved and preserved. Statistically we have recorded a continuous drop not only in off-take of drinking water but also in the discharge of waste water. We have achieved this trend by making our needs in the field of water management more efficient and by decreasing our demand for drinking water use.

#### Waste generation development (in tons)

Year		Other waste	Total
2005	164	7 669	7 833
2006	12	3 322	3 334
2007	16	6 910	6 926



SPP - distribúcia a. s. operates a large number of energy facilities, which produce the emission of greenhouse gases and polluting substances. These pollution sources are mainly emissions such as nitrogen oxide, carbon monoxide, alkenes except methane and unburned fuel residues such as total carbon, sulphur dioxide and solid air pollutants. Polluted air is a mixture of gases and chemical substances that, through the influence of strong sunlight, create chemical reactions and change to different forms of poisonous substances. We therefore spend a great amount of funds in continuously monitoring and checking air quality. Due to continuous care at operations and the quality of our combustion facilities the trend of the volumes of emitted pollutants production has fallen.

#### Protection of the External Environment against Noise Pollution and Vibrations

Noise and vibrations have a negative effect on live organisms and the surrounding

environment. They are produced primarily during the operation of natural gas regulation and transfer stations. Therefore it is our prime interest to reduce the noise and vibrations under the level required by legislation. In 2007 we updated our Central Inventory of Noise Pollution Sources in relation to individual local centres. Up till now we have carried out measurements at more than 1668 regulation and transfer stations.

#### **Environmental information system – EIS**

Environmental protection brings about the processing of a great amount of information. For this activity we efficiently use the support of information systems. These include mainly systems for administration and reporting of obligations to the public and state administration and information for internal use. All this information serves for the improvement of our activities in environmental protection.

#### Safety and Health Protection at Work

Safety and health protection at work means to provide and to create a work environment in which health, safety, and compliance with legal regulations concerning work accident prevention is guaranteed. We fulfil this employee duty through organised systems in the area of safety and health protection at work. This area is characterised by its complexity and heterogeneousness. This area comprises primarily such subjects as general work safety, technical facilities safety, established working conditions, work hygiene as well as fire protection. In the system of safety and health protection at work we pay attention mainly to:

- prevention
- foreseeing negative situations
- prevention of accidents
- quality and safety of technical facilities

A precondition for the fulfilment of these objectives is to adhere to legislation and other norms, the counselling and complex provision of controlling activities, and the verification of outputs and the realisation of corrective measures. In the field of safety we achieve our objectives by optimizing work processes, through a strategic and programme-based approach, order and discipline at the workplace, by involving employees in solving safety and health protection at work issues and by increasing their motivation and responsibility for their own health. For this purpose we, during 2007, developed a safety and health protection at work strategy, which we presented to all employees. The first positive result has come in the form of a decreased total number of work accidents. We see safety and health protection at work as a key priority in the management of our business activities.

Indicator	
Number of employees (average, calculated)	1 704
Number of work accidents	8
Of this: serious	2
Number of calendar days lost due to work accidents	498
Number of accidents per 100 employees	0.46
Average sick leave in %	0.08



# Summary Results



### Summary Results

#### Balance Sheet (Selected Data in SKK million)

	31 <sup>st</sup> December 2007	31 <sup>st</sup> December 2006
ASSETS		
ASSETS IN TOTAL		
NON-CURRENT ASSETS (LONG-TERM ASSETS)		
Long-term intangible assets	100	86
Long-term tangible assets	82 669	82 752
Long-term financial assets	-	-
Total non-current (long-term) assets	82 769	82 838
CURRENT (SHORT-TERM) ASSETS	4 816	6 102
ACCRUALS	1	4
TOTAL ASSETS	87 586	88 944
LIABILITIES		
EQUITY AND LIABILITIES		
CAPITAL		
Registered capital	58 969	58 969
Capital funds	11 794	11 794
Funds from profit	-	-
Financial results from previous year	-	-
Financial results for accounting period	3 289	2 445
Total Equity	74 052	73 208
RESERVES	379	368
ON-CURRENT (LONG-TERM) LIABILITIES	11 238	11 352
CURRENT (SHORT-TERM) LIABILITIES	1 910	4 016
BANK LOANS AND FINANCIAL ASSISTANCE	-	-
Total liabilities	13 527	15 736
ACCRUALS	7	-
TOTAL EQUITY AND LIABILITIES	87 586	88 944

#### Profit and Loss Statement (Selected Data in SKK million)

	Year ended 31 <sup>st</sup> December 2007	Year ended 31st December 2006
Revenues from sale of goods	202	120
Costs for procurement of sold goods	(202)	(120)
Business margin	-	-
Revenues from sale of products and services	13 531	5 882
Changes in balance of intra-organisational stock	-	-
Activation	59	34
Production	13 590	5 916
Consumption of material, energy and other non-stockable supplies	(1 453)	(546)
Services	(4 571)	(2 354)
Production consumption	(6 024)	(2 900)
Added value	7 566	3 016
Depreciations and rectifying items to long-term intangible assets	(2 333)	252
Other operating costs	(1 141)	(600)
Other operating revenues	67	17
Financial result from economic activity	4 159	2 685
Financial result from financial activity	(30)	1
Income tax from current activity	(840)	(241)
Financial result from current activity	3 289	2 445
Financial result for accounting period	3 289	2 445

#### Cash Flow Statement (Selected Data in SKK million)

	Year ended 31 <sup>st</sup> December 2007	Year ended 31st December 2006
Cash-flows from operating activities		
Cash-flows from operating activities	3 042	3 479
Interest paid	9	13
Interest received	(39)	(15)
Income tax paid	(91)	(362)
Net cash inflow from operating activities	2 921	3 115
Cash flow from investment activities		
Expenditure for the acquistion of long-term tangible and intangible assets	(2 389)	(1 206)
Revenues from the sale of long-term tangible and intangible assets	3	-
Net cash inflow/(outflow) from investment activities	(2 386)	(1 206)
Cash flows from financial activity		
Expenses for paid out dividends and other shares from profit	(2 439)	-
Other income and expenses for financial activities, net	(3)	-
Net cash flow from financial activities	(2 442)	-
Net increase/(decrease) in cash and cash equivalents	(1 907)	1 909
Cash and cash equivalents at the beginning of the accounting period	1 910	1
Exchange-rate differences to cash and cash equvivalents	-	-
Cash and cash equivalents at the end of the period	3	1 910



# Independent Auditor's Report



### Independent Auditor's Report

ERNST & YOUNG

Ernst & Young Slovakia, spol. s r.o. Hodžovo námestie 1A 811 06 Bratislava Slovenská republika Tel: +421 2 3333 9111 Fax: +421 2 3333 9222 www.ey.com/sk

Independent Auditor's Report To the Shareholders and Board of Directors of SPP – distribúcia, a.s.: We have audited the financial statements of SPP - distribúcia, a.s. ("the Company") for the year ended 31 December 2007 prepared in accordance with the Slovak Act on Accounting ("financial We have audited the financial statements of SPP – distribúcia, a.s. ("the Company") for the year ended 31 December 2007 prepared in accordance with the Slovak Act on Accounting ("financial statements") and issued unqualified oninion thereon dated 11 February 2008. ended 31 December 2007 prepared in accordance with the Siovak Act on statements") and issued unqualified opinion thereon dated 11 February 2008. The selected data from financial statements included in this Annual Report were derived from the audited financial statements of the Company. In our oninion, the selected data from the Company's The selected data from financial statements included in this Annual Report were derived from the audited financial statements of the Company. In our opinion, the selected data from the Company's financial statements included in this Annual Report are consistent in all material respects with the audited financial statements of the Company. In our opinion, the selected data from the Company's financial statements included in this Annual Report are consistent, in all material respects, with the audited financial statements referred to above from which they were derived. Tinancial statements included in this Annual Report are consistent, in all mat audited financial statements referred to above, from which they were derived. For a better understanding of the Company's financial position as of 31 December 2007, the results of its onerations for the year then ended and the scope of our audit the selected data from financial For a better understanding of the Company's financial position as of 31 December 2007, the results of its operations for the year then ended and the scope of our audit, the selected data from financial statements included in this Annual Report should be read in conjunction with the financial statements its operations for the year then ended and the scope of our audit, the selected data from financial statements included in this Annual Report should be read in conjunction with the financial from financial statements which they were derived and our audit report thereon. from which they were derived and our audit report thereon.

7 April 2008 Bratislava, Slovak Republic

Ernst & Young Slovakia, spor. s r.o. SKAU Licence No. 257

Ing. Dagmar Válová SKAU Licence No. 916



Statement of adherence of the Distribution Network Operator in 2007 to the Compliance Programme



### Statement of adherence of the Distribution Network Operator in 2007 to the Compliance Programme

- The Distribution Network Operator has implemented a Compliance Programme as referenced to in Energy Law No. 656/2004 Coll., as amended by further regulations (the "Act"). In 2007 the Compliance Programme approved in methodology directive D.RM.04.01.06 "The Distribution Network Operator Compliance Programme", became effective from 1<sup>st</sup> July 2006.
- The Compliance Programme sets forth the following measures:
   (a) obligations ensuring independence of the Distribution Network Operator from other activities, which are not related to distribution

(b) obligations ensuring a non-discriminatory approach in providing information

(c) obligations ensuring non-discriminatory conditions for access and connection to the distribution network and of the Distribution Network Operator

(d) obligations ensuring the publishing of the Compliance Programme,control and regular reports on the fulfilment of the Compliance Programme

3. Fulfilment of measures stated in the Distribution Network Operator's Compliance Programme was ensured as follows:

(a) by the legal unbundling of the Distribution Network Operator to
 SPP - distribúcia a. s. company from 1<sup>st</sup> July 2006, requirements of Section
 44 of the Act related to the unbundling of the Distribution Network Operator
 from the activities of gas transmission and gas delivery.

- (b) by implementing measures aimed at ensuring a non-discriminatory approach in accordance with the Compliance Programme to internal processes of the Distribution Network Operator
- (c) by publishing the Compliance Programme for Distribution Network Operator employees and the control of the Compliance Programme adherence
- Compliance Officer of the Distribution Network Operator in period from 1<sup>st</sup> January to 31<sup>st</sup> December 2007 found no breach of obligations imposed by Compliance Programme.

In Bratislava, on 27th February 2008

with

Ing. Milan Kachút Compliance Officer of the Distribution Network Operator

### Contacts

#### **Registered office:**

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#### Hotline for notification of defects:

Phone: 0850 111 727

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